

The Global Environmental Management Initiative (GEMI)

***“CLEAR ADVANTAGE:
Building Shareholder Value,
Environment: Value to the Investor”***

**EPA Performance Track Teleseminar
July 20, 2004**



Vision and Mission of GEMI

Vision:

“To be globally recognized as a leader in providing strategies for businesses to achieve EHS excellence, economic success, and corporate citizenship.”

Mission:

“Business helping business improve EHS performance, shareholder value, and corporate citizenship.”



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Current GEMI Member Companies:

- **3M**
- **Abbott Laboratories**
- **Altria**
- **Anheuser-Busch Inc.**
- **Ashland Inc.**
- **Aventis Pharmaceuticals Inc.**
- **Bristol-Myers Squibb Co.**
- **BNSF Railway Company**
- **The Coca-Cola Company**
- **ConAgra Foods**
- **Dell Inc.**
- **The Dow Chemical Company**
- **Duke Energy**
- **DuPont**
- **Eastman Kodak Company**
- **Eli Lilly and Company**
- **FedEx**
- **Georgia-Pacific Corporation**
- **HP**
- **Intel Corporation**
- **JohnsonDiversey, Inc.**
- **Johnson & Johnson**
- **Johnson Controls, Inc.**
- **Koch Industries, Inc.**
- **Lockheed Martin Corporation**
- **Merck & Company, Inc.**
- **Mirant Corporation**
- **Motorola, Inc.**
- **Novartis Corporation**
- **Occidental Petroleum Corporation**
- **Pfizer Inc**
- **The Procter & Gamble Company**
- **Roche**
- **Schering-Plough Corporation**
- **Smithfield Foods, Inc.**
- **Southern Company**
- **Temple-Inland Inc.**
- **Texas Instruments Incorporated**
- **Wyeth**



Other GEMI Documents

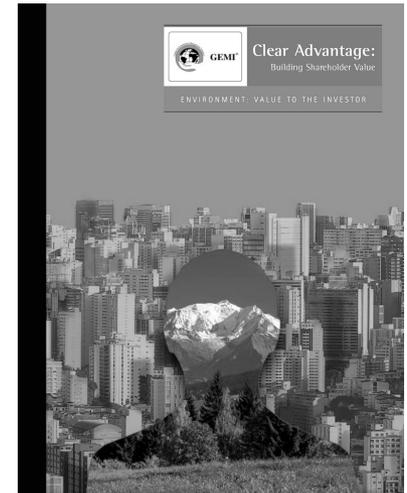
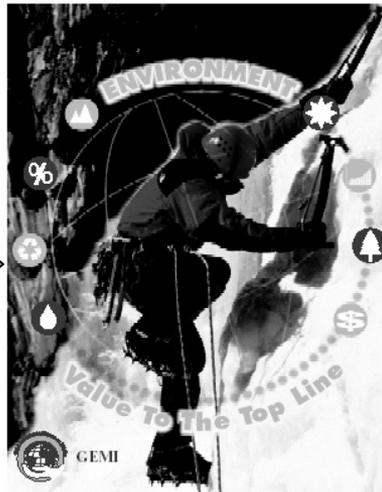
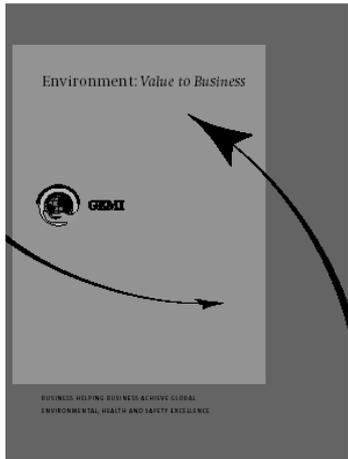
- *Environment: Value to Business (EVTB)*
- *Environment: Value to the Top Line (EVTL)*
- *New Paths to Business Value: Strategic Sourcing – Environment, Health & Safety*
- *Connecting the Drops Toward Creative Water Strategies -- A Water Sustainability Tool*
- *Exploring Pathways to a Sustainable Enterprise: SD Planner™*
- *Forging New Links: Enhancing Supply Chain Value Through Environmental Excellence*

Current GEMI Activities

- **AgSustainability**
 - Led by DuPont, Smithfield Foods and Anheuser-Busch Inc.
- **Metrics**
 - Led by BMS and Southern Company
- **Supply Chain**
 - Led by Anheuser-Busch Inc. and Eli Lilly
- **Sustainable Development**
 - Led by 3M and Intel
- **Transparency**
 - Led by Procter & Gamble and Southern Company

GEMI EVI Project

**Clear Advantage:
Building Shareholder
Value**



Environment:
Value to
Business

Environment:
Value to the
Top Line

Environment:
Value to the
Investor

The Concept of Intangibles

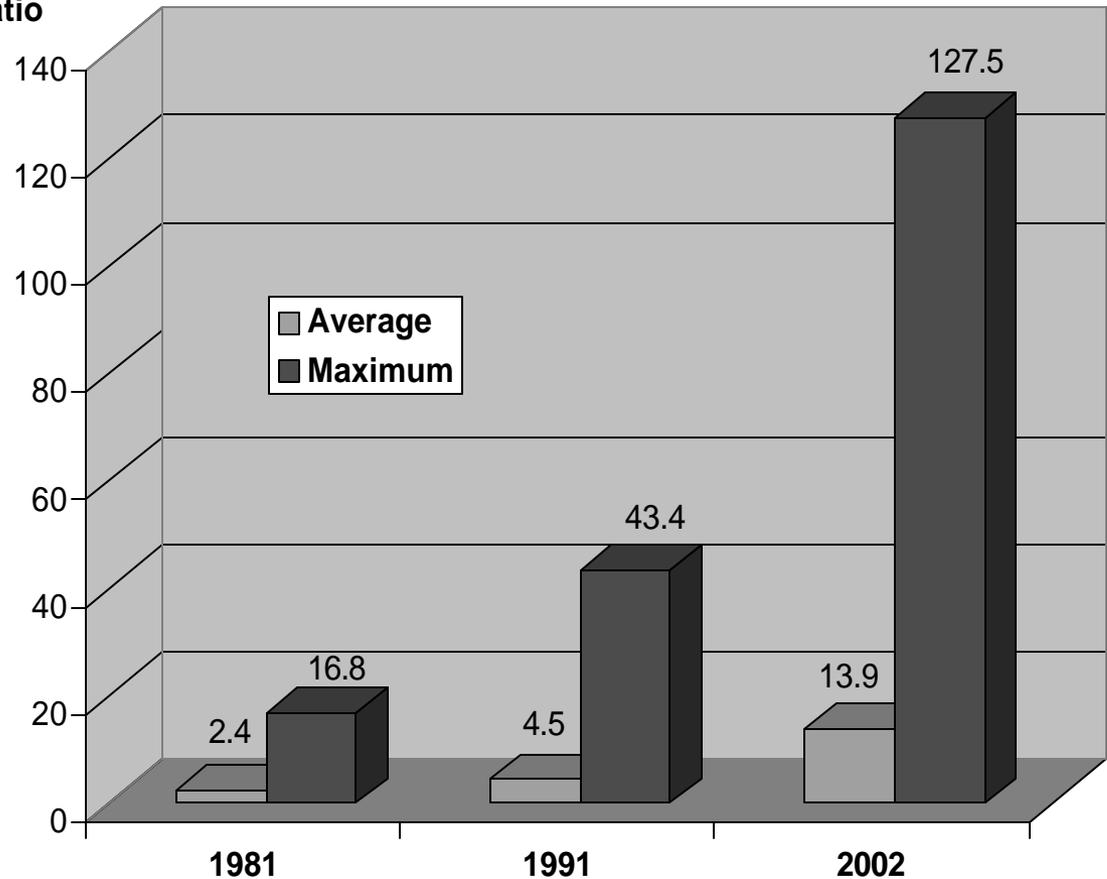
- **“Intangibles such as R&D, proprietary know-how, intellectual property and workforce skills, world-class supply networks and brands are now the key drivers of wealth production while physical and financial assets are increasingly regarded as commodities.” (from report on the Intangibles Economy to the European Commission)**
- **“Identifiable, non-monetary asset without physical substance held for use in the production of goods or services, for rental to others or for administrative purposes.” (The International Accounting Standards Board)**
- **“Intangibles” describes the human, intellectual, social and structural capital of an organization. (GEMI EVI report definition)**

Why are Intangibles Important?

- **35% of institutional investors' portfolio allocation decisions are based on intangibles like EHS performance** [Cap Gemini Ernst & Young's "Measures That Matter" study (1996), a survey of 300 sell-side analysts, 275 buy-side analysts, as well as interviews with portfolio managers.]
- **According to the Organization for Economic Cooperation and Development (OECD), investment by public companies in intangibles such as brand, R&D and training has exceeded investment in tangibles like property, plant and equipment since 1997.** [Low, Jonathan and Pamela Cohen Kalafut, "Invisible Advantage," Perseus Press, Cambridge, MA, USA (2002).]

Why are Intangibles Important?

Market Cap/PPE
Ratio



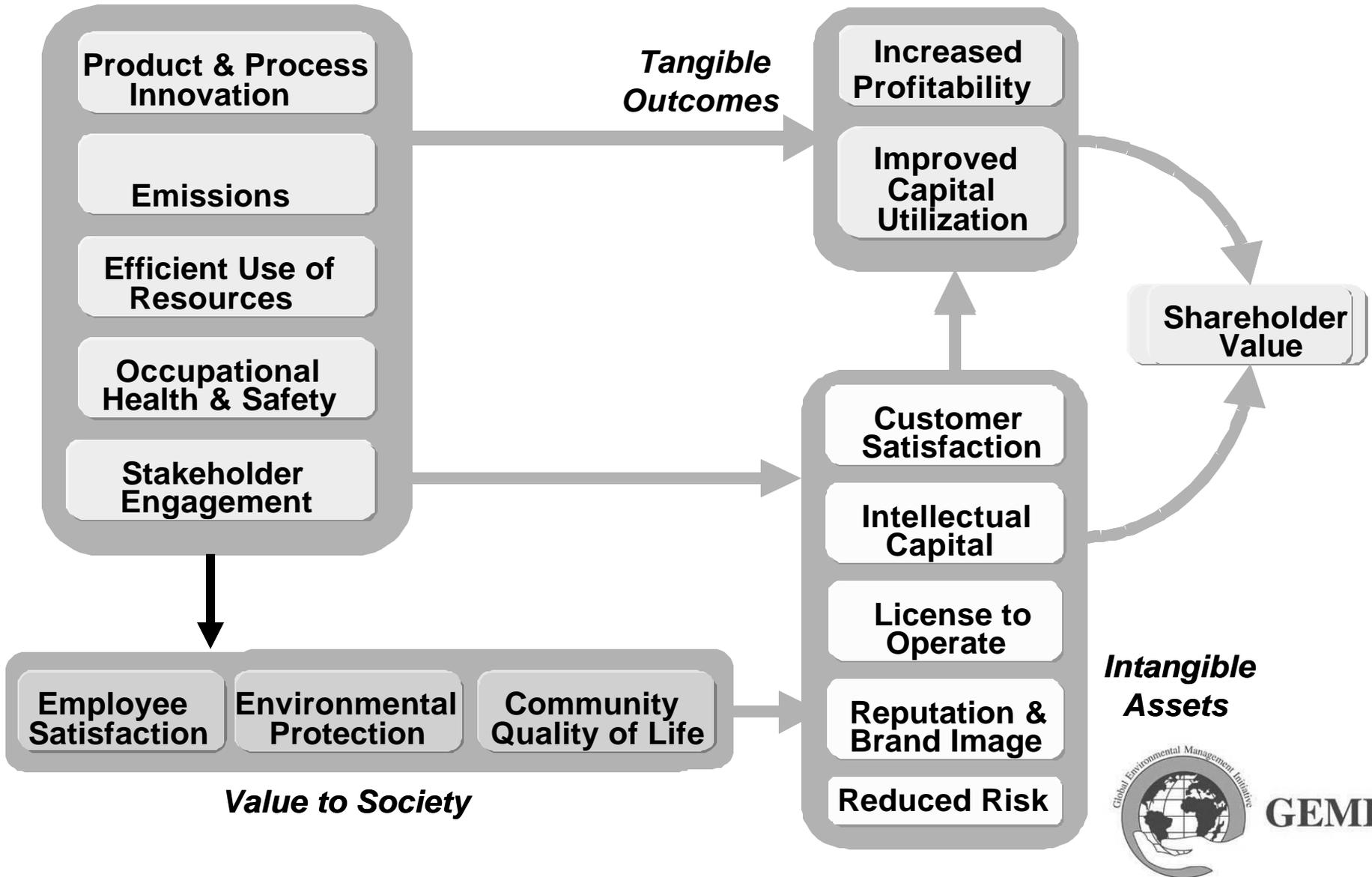
Top 100 greatest market cap firms for each year depicted, and total Plant, Property, Equipment (PPE) reported for same

Source: Data: Compustat and CGEY analysis. Chart: GEMI EVI report



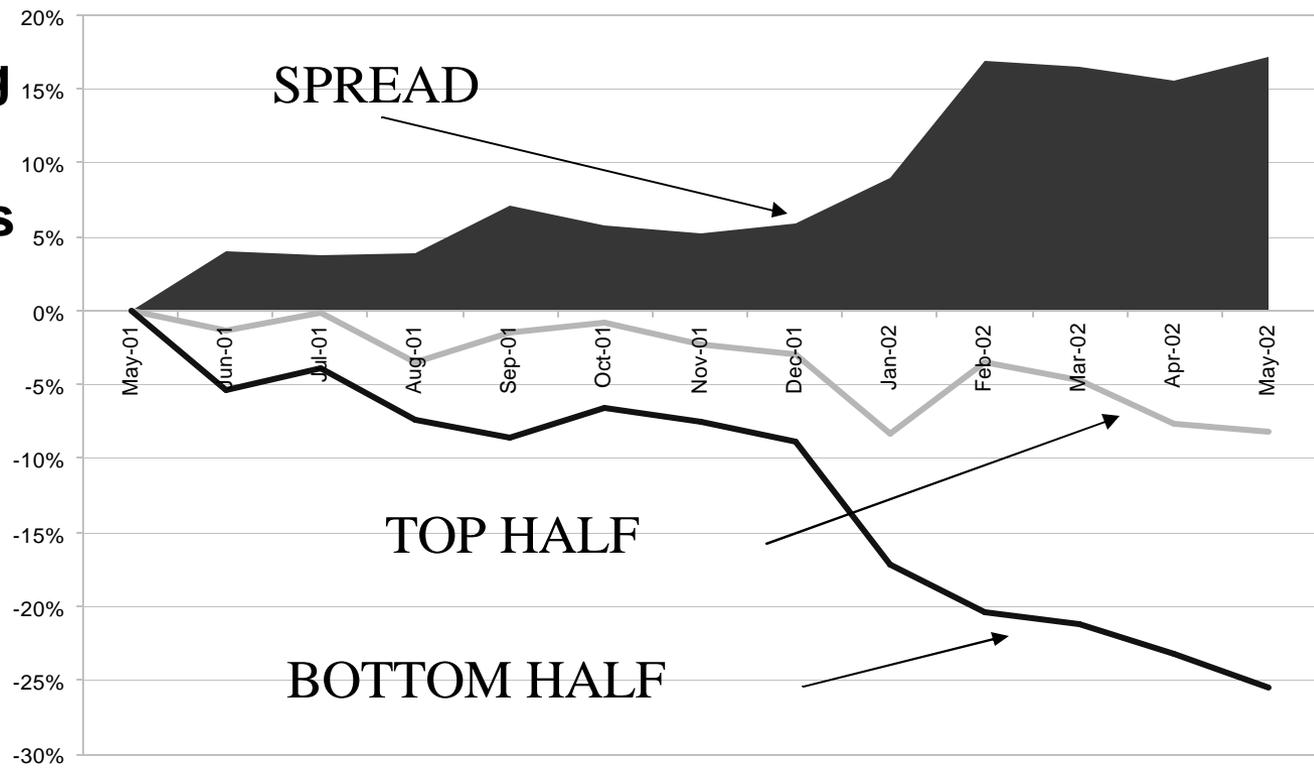
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Overview of Pathways Linking EHS to Shareholder Value



EHS Excellence is an Indicator of Superior Management

Pharmaceutical companies receiving above average EcoValue21® ratings have outperformed companies with below average ratings by approximately 17 percentage points (1700 basis points) since May 2001.



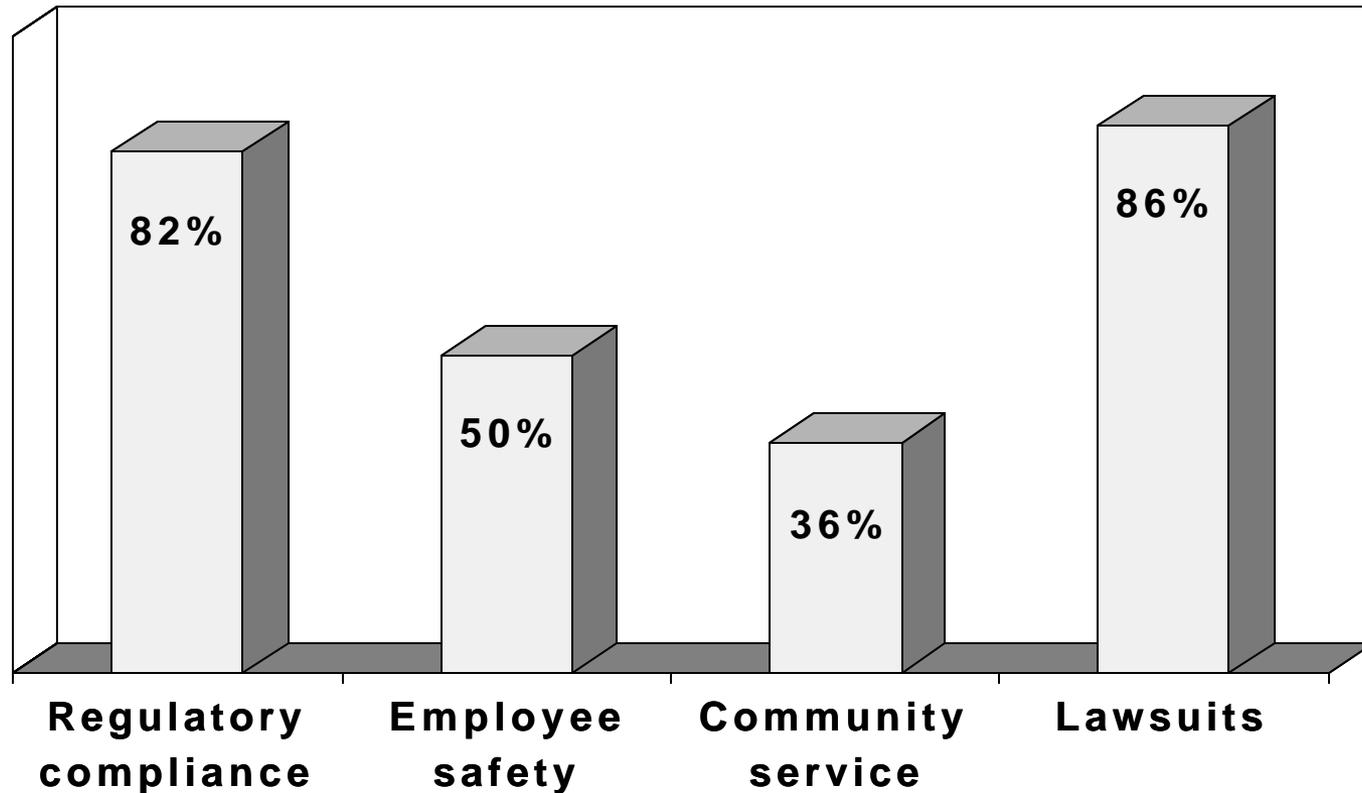
	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02
■ Difference	0.0%	4.0%	3.7%	3.9%	7.1%	5.8%	5.2%	5.9%	9.0%	16.9%	16.5%	15.5%	17.2%
— Top Half Average	0.0%	-1.4%	-0.2%	-3.5%	-1.5%	-0.8%	-2.3%	-3.0%	-8.3%	-3.5%	-4.7%	-7.7%	-8.2%
— Bottom Half Average	0.0%	-5.4%	-3.9%	-7.4%	-8.6%	-6.6%	-7.5%	-8.9%	-17.2%	-20.4%	-21.2%	-23.3%	-25.4%

Source: Innovest Strategic Value Advisors, 2002



Business Fundamentals Go Beyond Audited Financials

Figure 2-5: Percent of oil and gas industry analysts who feel that selected EHS indicators impact the value of a firm.¹⁴



Source: Cap Gemini Ernst & Young's "Measures That Matter" study (1996)



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Ten Intangible Value Drivers for Measuring EHS Performance

- **Customer:** The ability to develop customer relationships, satisfaction and loyalty.
- **Leadership and Strategy:** Management capabilities, experience and leadership's vision for the future.
- **Transparency:** Does management communicate honestly and openly? Are its communications believed and trusted? Does it hold itself accountable?
- **Brand Equity:** Strength of market position. The ability to expand the market, perception of product/service quality and investor confidence.
- **Environmental and Social Reputation:** How the company is viewed globally with regard to environmental concerns, community concerns, regulators' concerns, inclusion in "most admired company" lists, triple bottom line.

Ten Intangible Value Drivers for Measuring EHS Performance (cont'd)

- **Alliances and Networks:** Supply chain relationships, strategic alliances, partnerships.
- **Technology and Processes:** Strategy execution, IT capabilities, inventory management, turnaround times, flexibility, reengineering, quality, internal transparency.
- **Human Capital:** Talent acquisition, workforce retention, employee relations, compensation, what makes a “great place to work.”
- **Innovation:** The R&D pipeline, effectiveness of new-product development, patents, know-how, business secrets
- **Risk:** The ability to effectively manage the balance between potential liabilities and potential opportunities.

GEMI Member Value Driver Case Studies

- **Customer – Ashland Inc.**
- **Leadership & Strategy – DuPont**
- **Communication & Transparency – Bristol-Myers Squibb**
- **Brand Equity – HP**
- **Environmental & Social Reputation – 3M**
- **Alliances & Networks – Dow Chemical Company**
- **Technology & Processes – FedEx Express**
- **Human Capital – Intel**
- **Innovation – Johnson Controls, Inc.**
- **Risk – Novartis**



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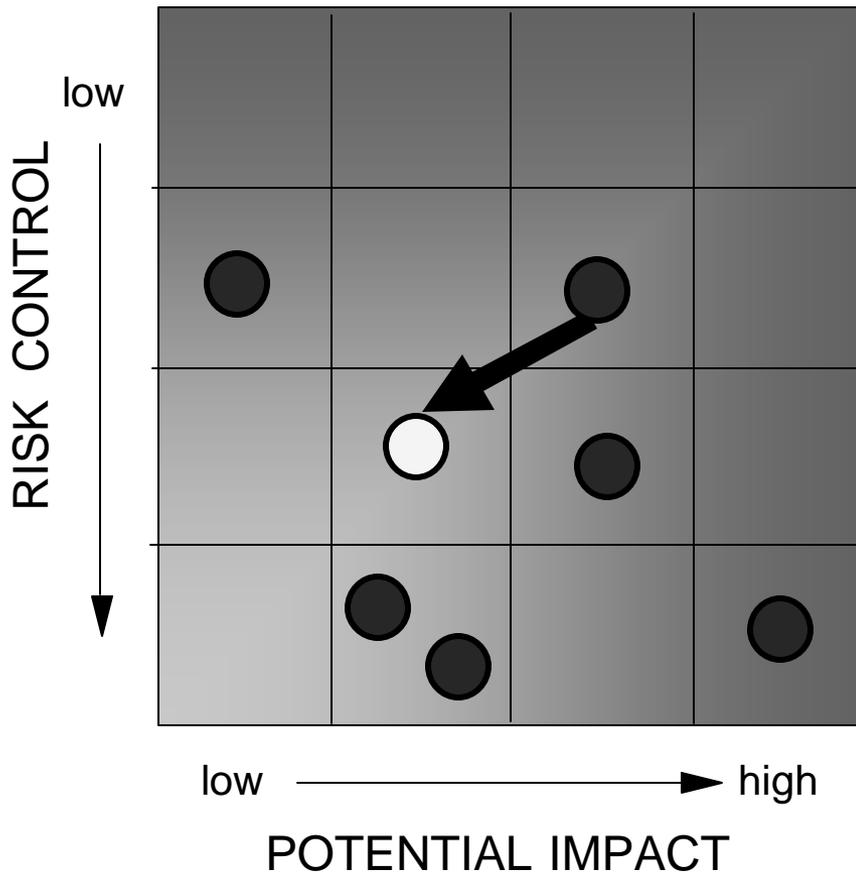
Novartis Case Study:

- Risk Portfolio*
- Business Continuity Management*
- Product Stewardship*

Novartis Case Study

- **Risk Portfolio** – a matrix used to convey information on risk to management for decision-making
- **Business Continuity Management** – is the act of anticipating incidents which will affect mission critical functions and processes for the organisation and ensuring that it responds to any incident in a planned and rehearsed manner.
- **Product Stewardship** – stands for systematic review and assessment of product related benefits and risks, and implementation of processes and measures to manage risks

Novartis' Risk Portfolio

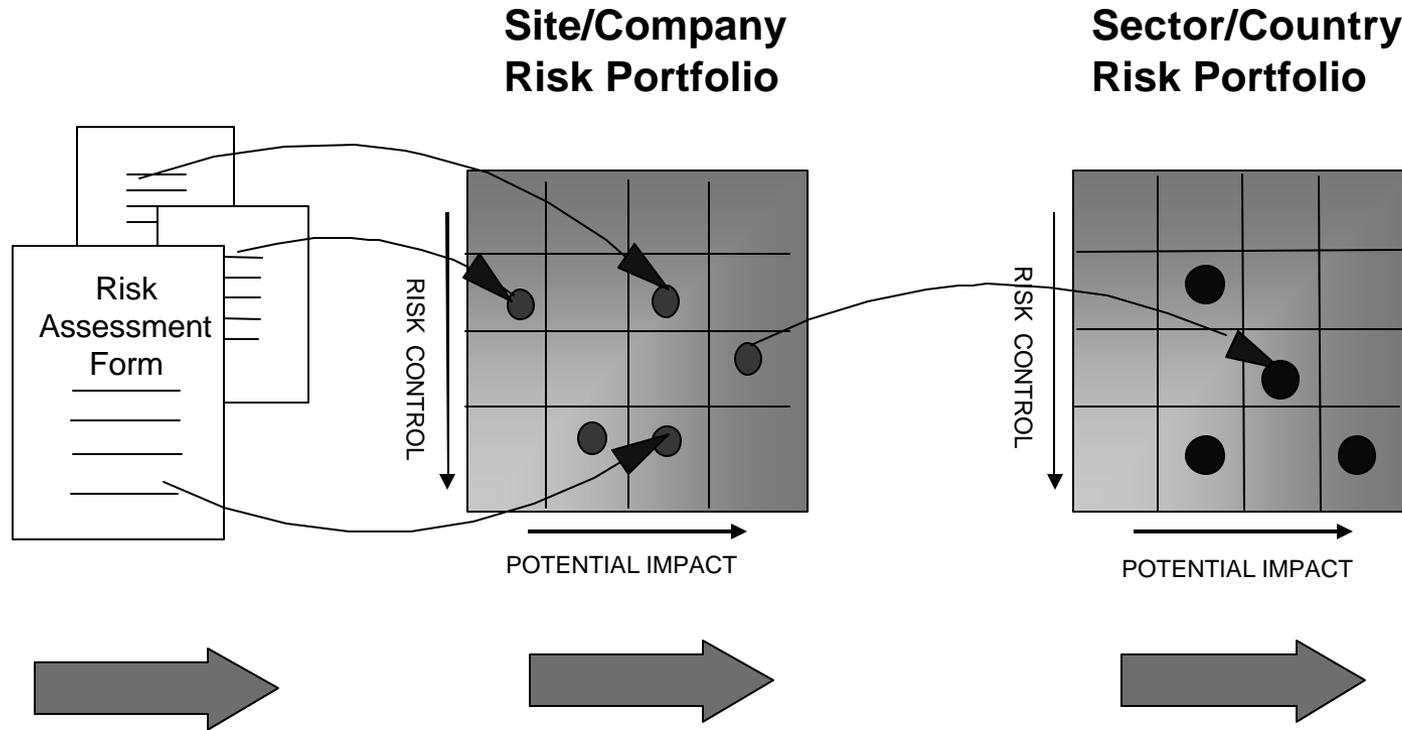


Objectives

- ▶ Overview of major risks at site, sector, country, group level
- ▶ management awareness, involvement and support
- ▶ basis for planning and setting goals
- ▶ record of improvements

Novartis' Risk Portfolio (cont'd)

Risk Portfolio Preparation and Application

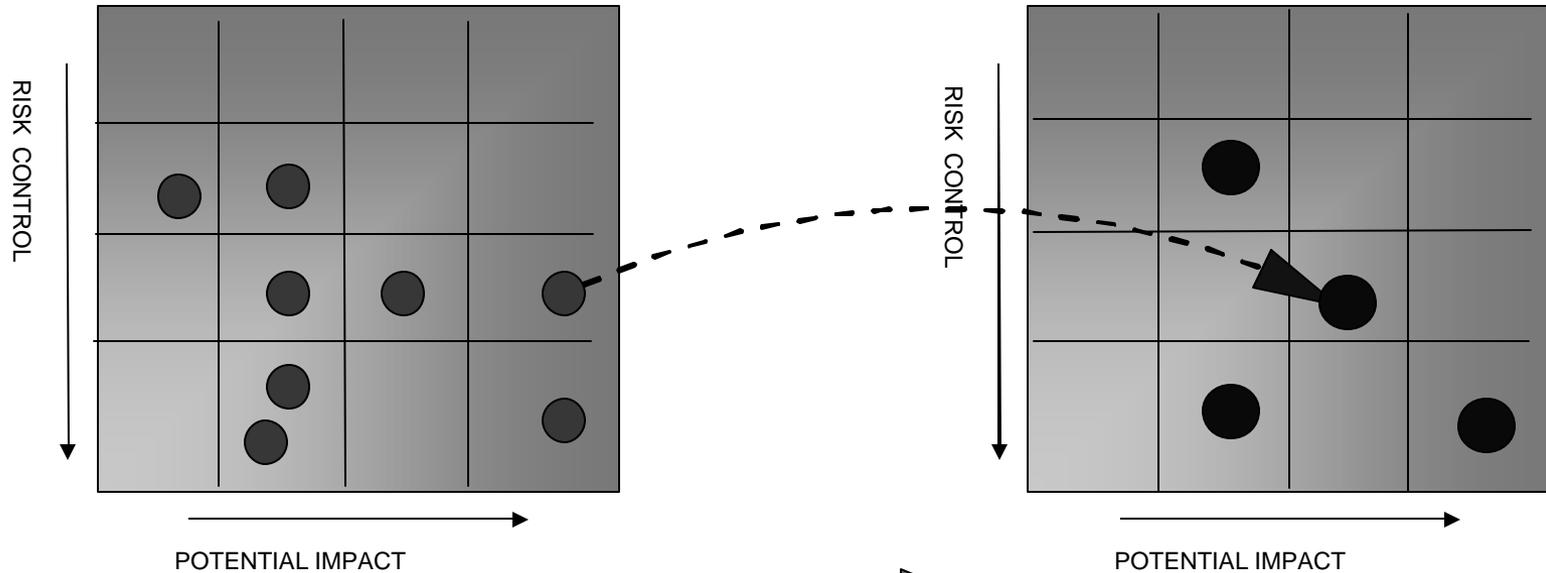


Novartis' Risk Portfolio (cont'd)

Consolidation on Group Level

**Sector
Risk Portfolio**

**Group
Risk Portfolio**

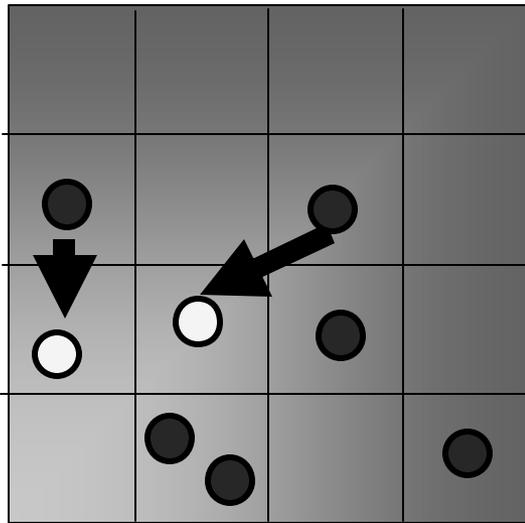


**Business Interruption
Threat to Life
Ecological Damage
Image Impact**

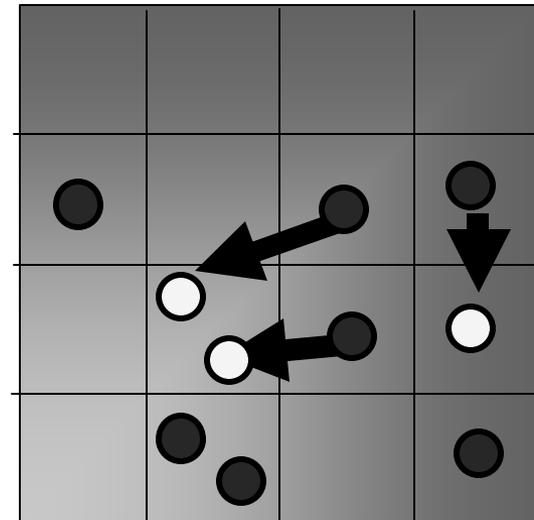
Novartis' Risk Portfolio (cont'd)

Action Programs

Site Portfolio



Sector Portfolio



Business Continuity - NYC Blackout



- -- 2 p.m. FirstEnergy Corp.'s Eastlake Unit 5, a 680-megawatt coal generation plant in Eastlake, Ohio, trips off.
- -- 3:06 p.m. FirstEnergy's Chamberlin-Harding power transmission line, a 345-kilovolt power line in northeastern Ohio, trips.
- -- 3:41 p.m. An overload on First Energy's Star-South Canton 345-kilovolt line trips a breaker at the Star switching station, where FirstEnergy's grid interconnects with a neighboring grid owned by the American Electric Power Co.
- -- 3:46 p.m. AEP's 345-kilovolt Tidd-Canton Control transmission line also trips where it interconnects with FirstEnergy's grid, at AEP's connection station in Canton, Ohio.
- -- 4:08 p.m. Utilities in Canada and the eastern United States see wild power swings.
- -- 4:09 p.m. The already lowered voltage coursing to customers of Cleveland Public Power, inside the city of Cleveland, plummets to zero.
- Ultimately, fifty million people lost power in eight states and parts of Canada.

What is the Common Understanding of Business Continuity Management?

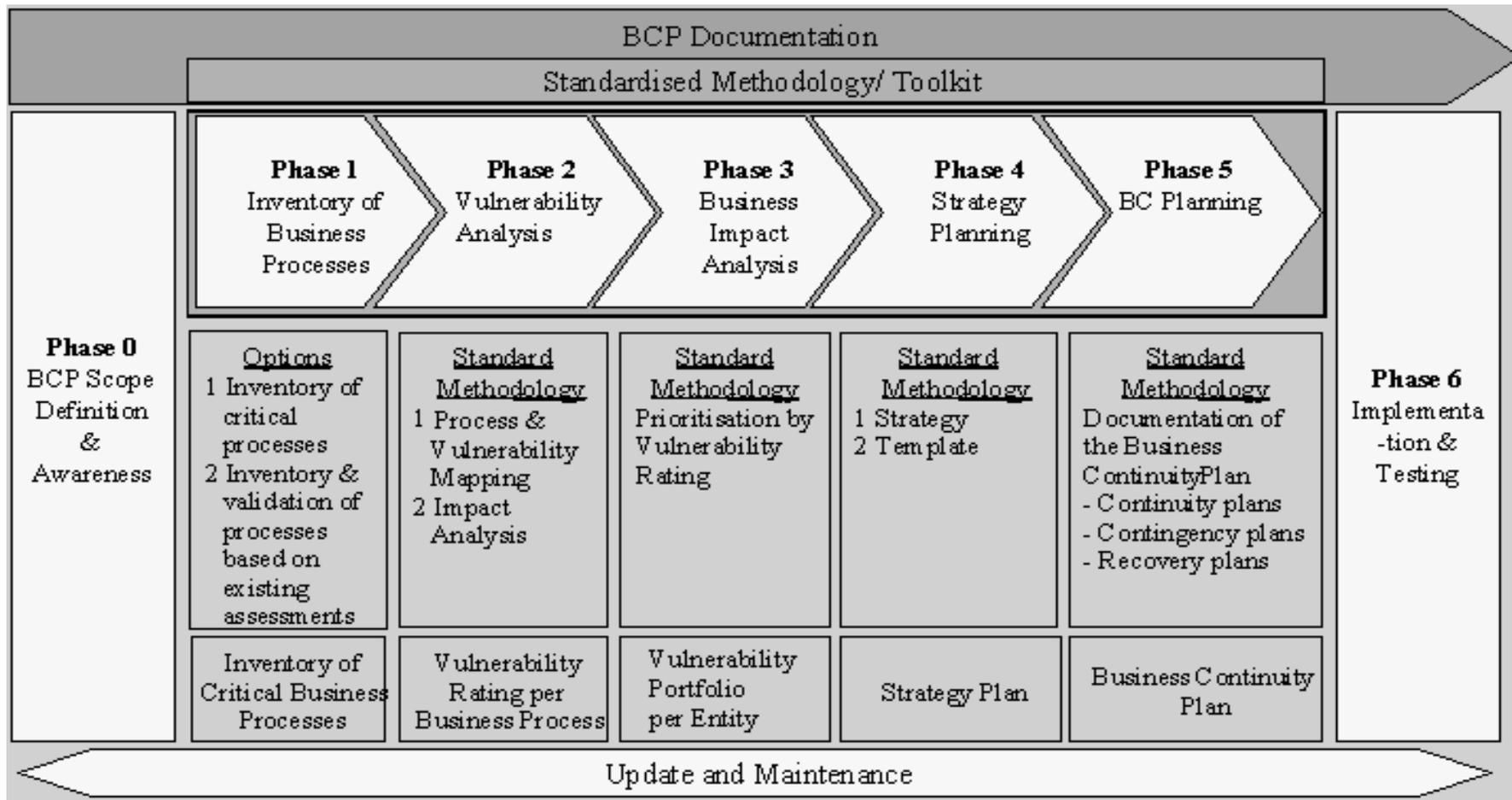
- **Business Continuity Management is the act of anticipating incidents which will affect mission critical functions and processes for the organisation and ensuring that it responds to any incident in a planned and rehearsed manner.**
- **Its objective is to ensure the uninterrupted availability of all key business functions, processes, and resources required to support essential business activities**
- **Business Continuity Management is an integral part of the risk management framework within an orga**



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Novartis' Business Continuity Management

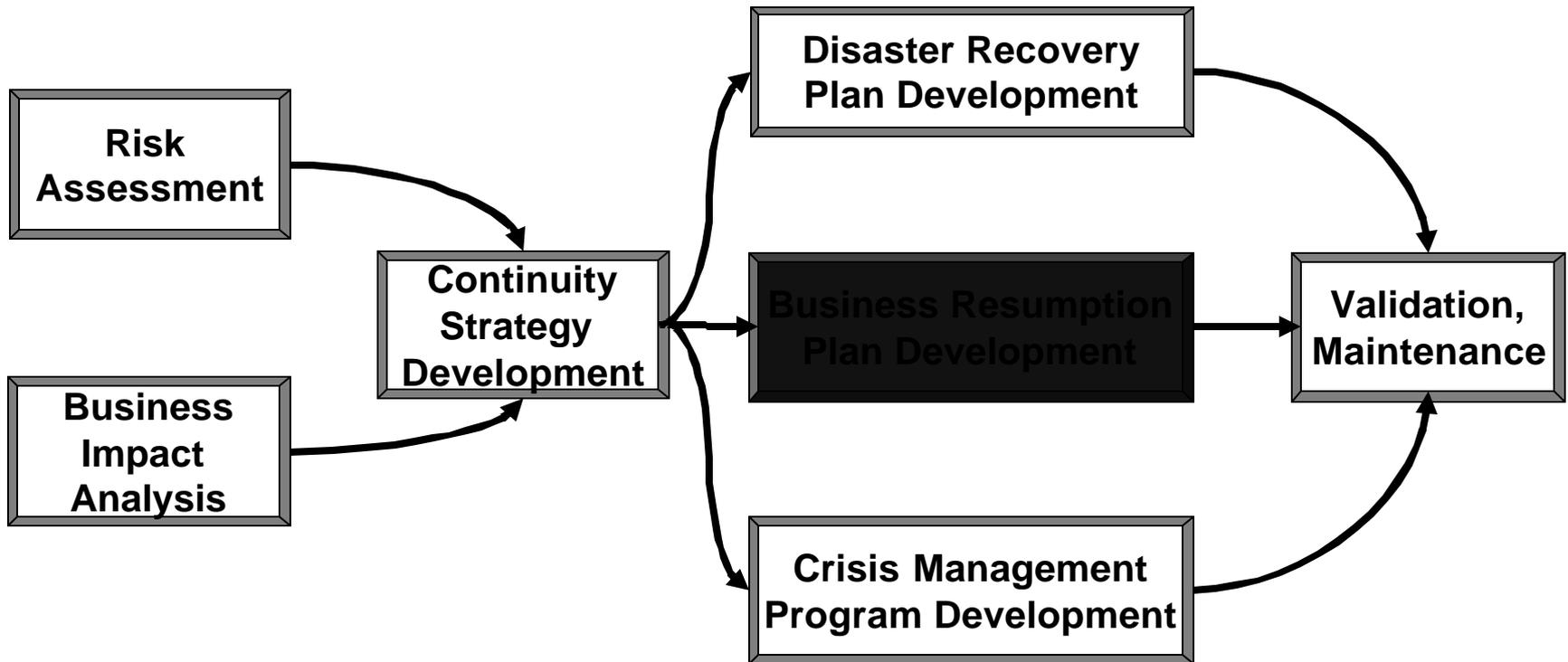
BCP Structure and Methodology



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Novartis' Business Continuity Management (cont'd)

The Business Continuity Management Life Cycle



Novartis' Business Continuity Management (cont'd)

- **Strategies for Reducing Risk** -- Examples of typical strategies for reducing risk include:
 - Physical building and perimeter security
 - Fire detection and suppression systems
 - UPS systems (uninterruptable power supply)
 - Computer security systems (e.g. passwords, firewalls)
 - Regular backup of electronic data
 - Secure storage of critical paper documents
 - Minimising 'single points of failure'
 - Regular maintenance of equipment
 - Employee screening procedures
 - Executive travel policies, etc.

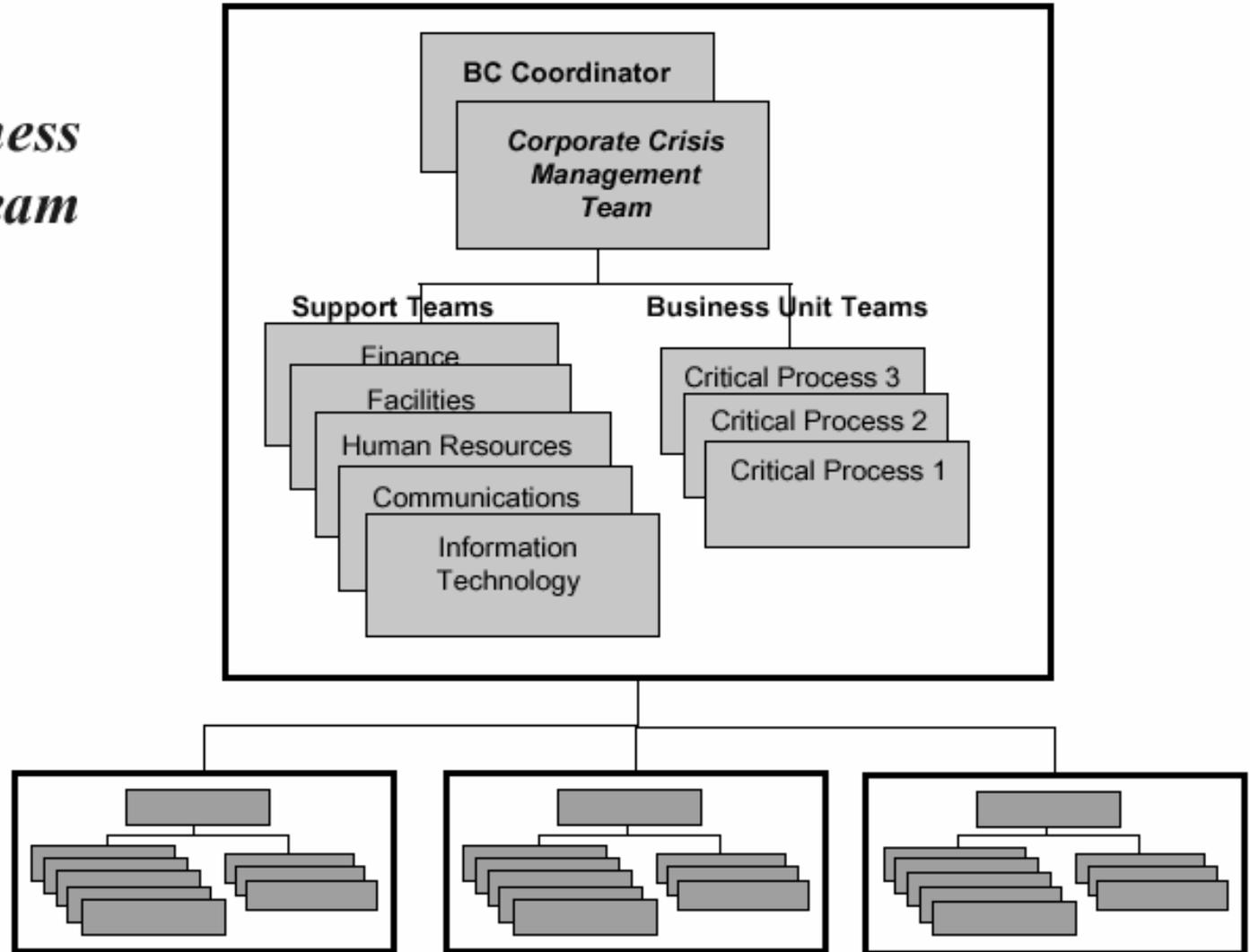
Novartis' Business Continuity Management (cont'd)

- **Strategies for Reducing Impact -- Examples of typical strategies for reducing impact include:**
 - Developing 'workaround' procedures for loss of computer systems
 - Developing contingency procedures for specific events (e.g., postal strike, transportation problems)
 - Splitting business operations between two or more locations
 - Maintaining safety stock of raw materials at an alternate location
 - Keeping finished inventory in more than one location
 - Establishing alternate means of voice or data communication
 - Pre-establishing outsourcing arrangements
 - Cross-training employees
 - Developing executive succession plans, etc.



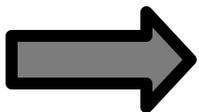
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Sample Business Continuity Team Structure



Novartis' Product Stewardship: Scope

- Product Stewardship stands for systematic review and assessment of product related benefits and risks, and implementation of processes and measures
 - to maintain risks in a justifiable relation to the benefits and opportunities of the product,
 - to respect the Corporate Citizenship commitments of Novartis, and
 - to enhance our competitive advantage



“Anticipatory Management”



Novartis' Product Stewardship: Objectives & Issues

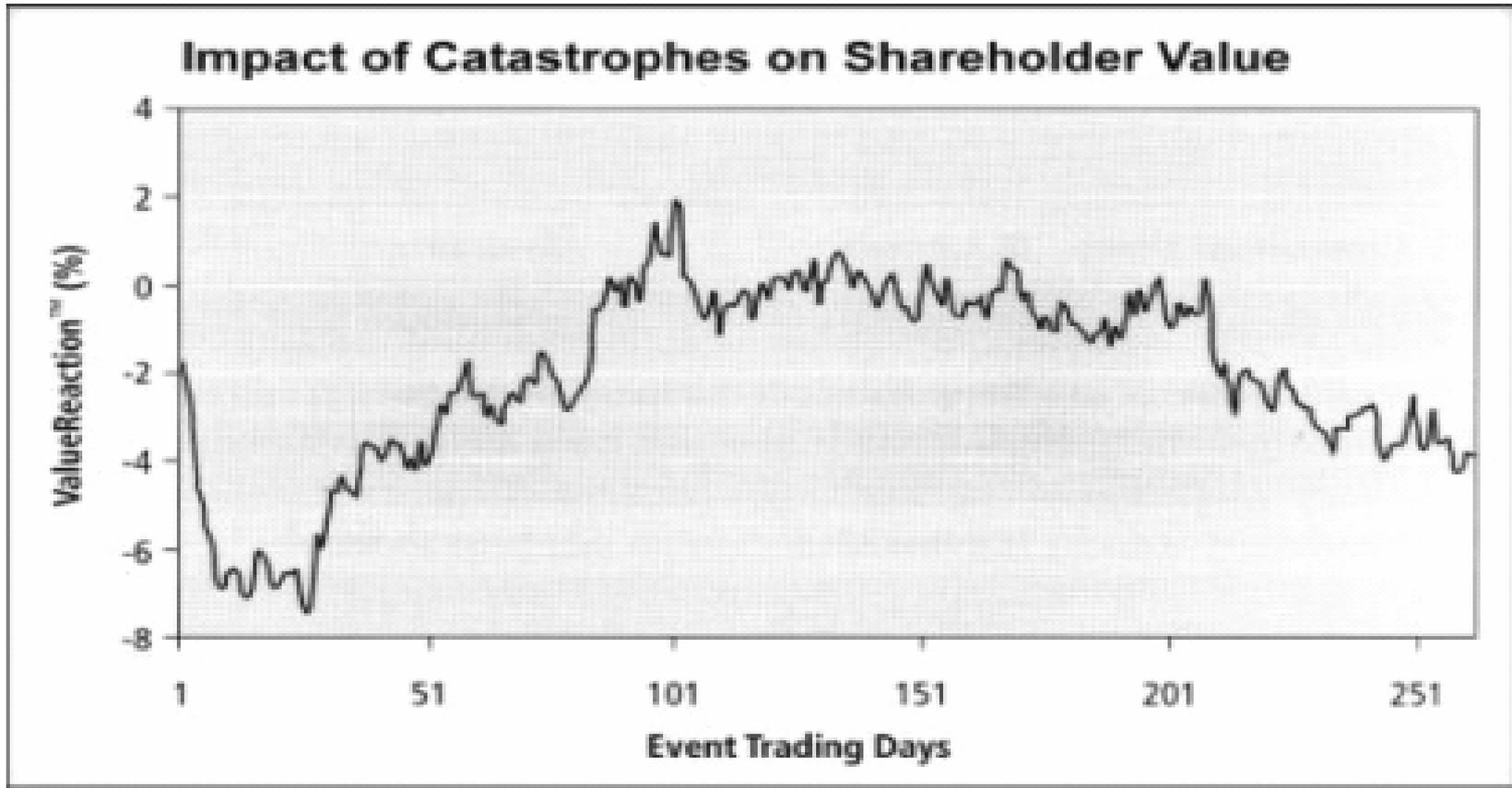
- Establish an early awareness system
 - define scientific/technical, ethical, business/financial, legal/regulatory indicators
- Establish cross-functional methodology to assess products & portfolios - high transparency
 - define factors and scale for “impact” and “degree of control”
 - adapt methodology for physical risk management (ZHA) to product stewardship
- Integrated decision making process
 - integrate product stewardship into strategy, priority and target setting & decision making processes
 - define roles & responsibilities



Novartis' Product Stewardship: Objectives & Issues (cont'd)

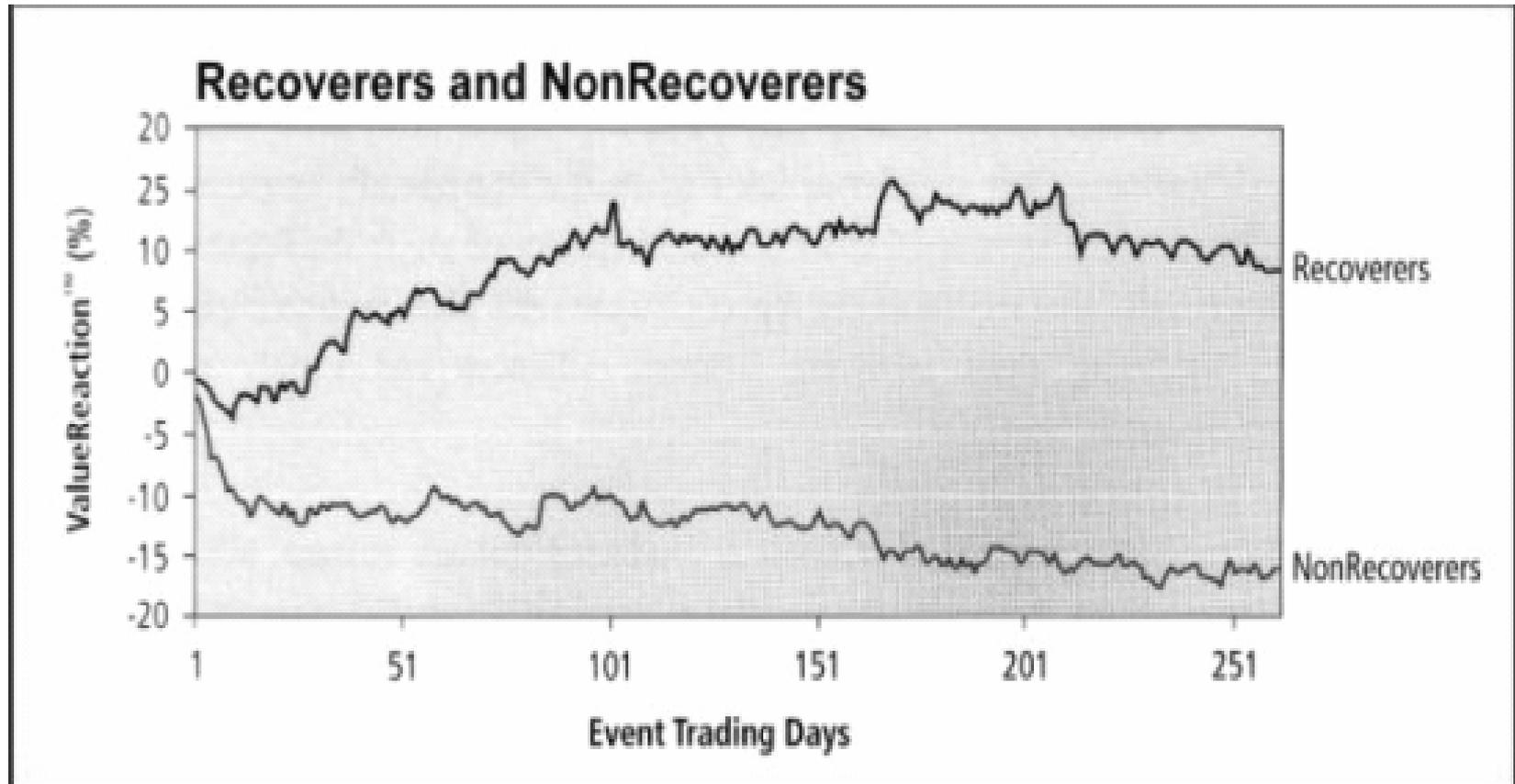
- Foster Communication & Networking
 - regular cross communication processes (BU's, BU's & Corporate)
 - sounding board/expert panel (internal/external/scientific/medical)
- Investigate and consider regulatory & legal implications
 - awareness regarding consequences of documentation
 - use of attorney/client privilege

The Impact of Crises on Reputation and Shareholder Value



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The Impact of Crises on Reputation and Shareholder Value



3M Case Study: Building A Reputation for Sustainability

3M Case Study: Building a Reputation for Sustainability

- 3M has a strong commitment to sustainable development through environmental protection, social responsibility and economic progress.
- Fundamental corporate values:
 - Customer satisfaction
 - Sustained, high-quality growth
 - Respecting its social & physical environment
 - Being a company that employees are proud to be a part of

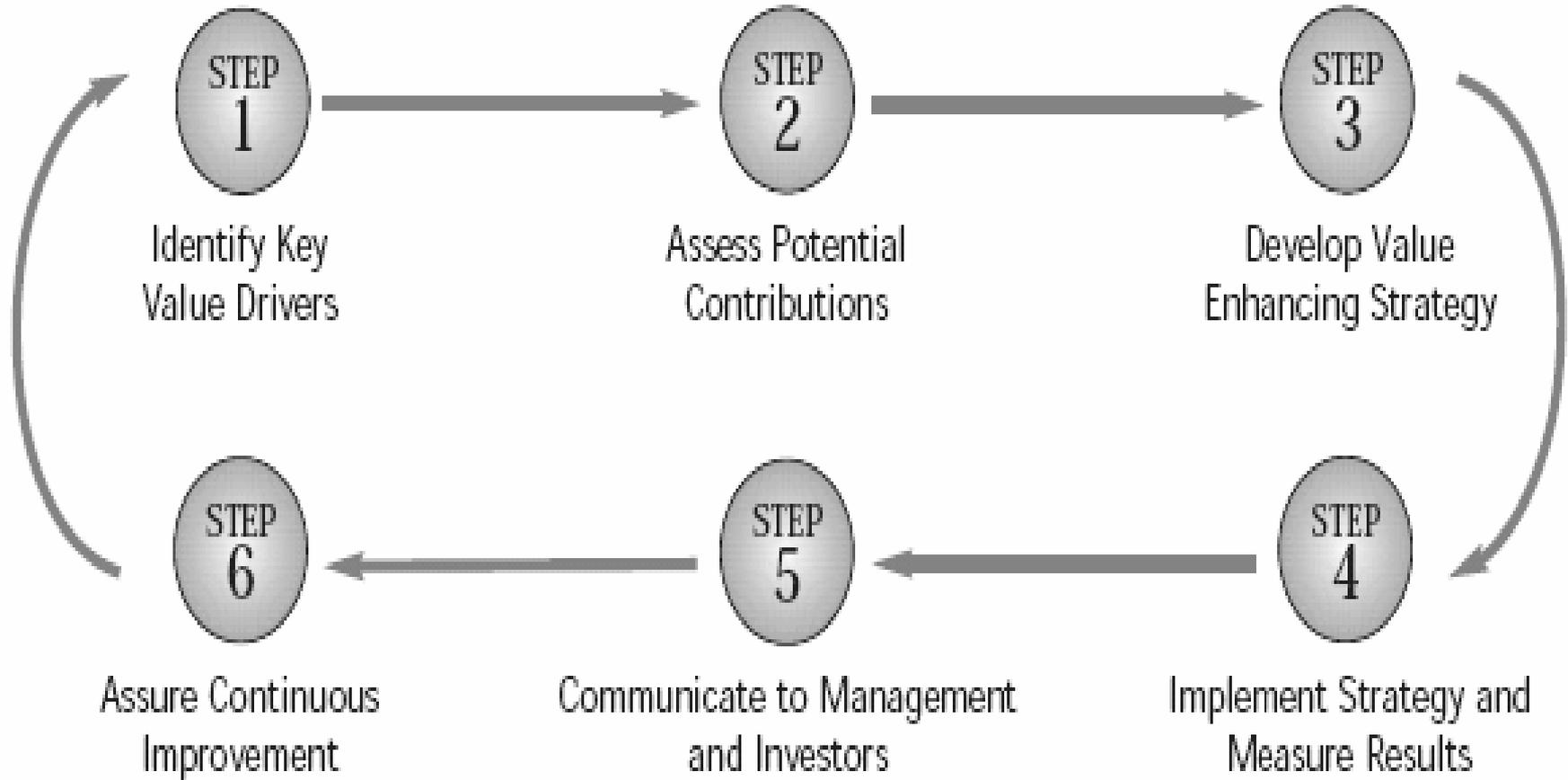


3M Case Study: Building a Reputation for Sustainability (cont'd)

- Key Intangibles: environmental and social reputation, brand equity and human capital
- Leading indicators:
 - Recognized as a sustainability leader by governments, NGOs and business groups (e.g., Dow Jones Sustainability Index, Harris Annual Reputation Survey)
 - Inclusion in environmentally- or socially-screened funds (i.e., Dow Jones Sustainability Index)
 - Product preference by consumers



The Clear Advantage Process – From Concept to Practice



Closing Comment

“Every corporation is under intense pressure to create ever-increasing shareholder value. Enhancing environmental and social performance are enormous business opportunities to do just that.”

Gary M. Pfeiffer, Senior Vice President
and CFO, DuPont

(As quoted in GEMI's *Clear Advantage: Building Shareholder Value*)



**Visit GEMI's website to view and download a
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Value, Environment: Value to the Investor***

www.gemi.org

GEMI

One Thomas Circle, NW, 10th Floor

Washington, DC 20005

Phone: 202-296-7449

Fax: 202-296-7442

Internet: www.gemi.org

Email: info@gemi.org



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